FISCAL NOTE

Bill #:	HB0360	**Title:**	State employee voluntary termination incentive
Primary Sponsor:	Lewis, D	**Status:**	As Amended in House Committee

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$17,286,858	($1,308,189)
State Special Revenue	$9,895,273	($1,260,833)
Federal Special Revenue	($424,278)	($565,704)
Other	$3,019,889	($388,921)
Other Employee Benefit Trust (09)	$8,618,044	$2,869,920
Total	**$38,395,786**	**($653,727)**
Revenue:		
Other Employee Benefit Trust – Transfer In	$32,417,477	$0
Other Employee Benefit Trust – Interest Earnings	$645,244	$716,373
Total	**$33,062,721**	**$716,373**
Net Impact on General Fund Balance:	($17,286,858)	$1,308,189

☐ Significant Local Gov. Impact
☐ Included in the Executive Budget
☒ Dedicated Revenue Form Attached
☒ Technical Concerns
☒ Significant Long-Term Impacts
☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. For purposes of this fiscal note it was assumed that the number of employees taking the incentive and the projected savings indicated in the bill were provided as estimates for informational purposes only. Calculations for this fiscal note are based on the following assumptions about the employees choosing the incentive (all demographics taken from Jan. 2003 human resource reports):

• Total years of service (# of yrs as of Jan. 2003)	29+	24-28	0-23
• Percent of eligible employees choosing incentive	90%	25%	7.5%
• Number of employees in service level	294	778	10,052
• Number of employees choosing incentive	265	195	754
• Avg. hourly salary	$22.734	$21.368	$17.267

• Avg. number of full years employment/employee	32	26	8
• Avg. number of sick leave hours/employee (@ 25%)	131.87	133.86	74.61
• Avg. number of vacation hours/employee	227.61	219.44	143.16
• Avg. leave payout/employee	$8,172	$7,549	$3,760
• Avg. Incentive pmt/employee	$45,395	$34,667	$8,620

- All employees choosing this incentive terminate on Sept. 30, 2003.

2. The 3 percent cash incentive is calculated on the sum of the base salary plus longevity, multiplied by the years of service completed as of Jan. 2003. Base salary and longevity rates do not change prior to the date of termination.
3. Total number of leave hours does not change from the Jan. 2003 record of accumulated hours to termination date. Payout for unused leave credits is made in a lump sum payment on termination day.
4. Savings from limiting cash incentive to an amount not to exceed employee's annual base salary, plus longevity, for employees with >33 years of service, amounts to $221,000.
5. A lump sum transfer of $18.268 million from the general fund into the Employee Benefit Trust fund established in Section 6 of the bill occurs on Sept. 30, 2003. This transfer will fund the retirement incentive for general fund employees and employees whose costs are subject to federal fund reimbursement under the statewide cost allocation plan provided for in 17-3-110. Subsequent reimbursement of these costs by the federal government is dependent upon approval from the appropriate federal agency. This fiscal note assumes that approximately $4.8 million of the incentive payouts, representing the assumed proportionate share of federal funds used to compensate employees during the 2002 fiscal year, will eventually be reimbursed to the general fund from the federal government. This reimbursement will occur in the 2007 biennium, two years after the date the incentive payout cost is incurred.
6. The funds transferred into the Employee Benefit Trust fund are temporarily invested in STIP, with an assumed rate of return of 3 percent, up to the point that they are disbursed to the terminated employees. Interest earnings in FY 2004 to the Employee Benefit Trust fund are $645,244, and $716,373 in FY 2005. Per Board of Investments, the Employee Benefit Trust funds, consisting of both principal and interest being paid out in their entirety over the course of ten years could most likely be invested in STIP rather than a longer-term investment security.
7. A lump sum transfer of $14.807 million, from agencies of employees funded in part or in whole by non-general and non-federal funds, will be made to the Employee Benefit Trust fund on Sept. 30, 2003. This represents the assumed proportionate share of non-general, non-federal funds used to compensate the employee during the 2002 fiscal year. It is assumed that no agencies borrow the funds for their share of the incentive payments.
8. The total amount transferred into the Employee Benefit Trust fund-Termination Incentive Account on Sept. 30, 2003 is $33.072 million.
9. Computation of the financing cost for the incentive payout assumes that all annuities are paid over a 120-month period and receive 3 percent interest compounded annually on the unpaid balance as of June 30 of each year. Payments to terminated employees are about $239,160 per month from the Employee Benefit Trust fund, for total payments of $2,152,440 in FY 2004 and $2,869,920 in FY 2005.
10. This fiscal note assumes that 1,213 positions will be vacated by this act. All employees terminating during the available window will choose the incentive. The vacated positions will be proportionately allocated to each of the three employee categories defined by number of years in service. Recruitment for the 1,213 vacated positions will select new recruits from the 0-23 year and 24-28 year categories only, and salaries will be 90 percent of the average hourly salary rate for each category of employee. No one with greater than 28 years of service is recruited. The savings in salary costs for these positions that would be

vacated and refilled with the incentive, as opposed to the number of positions that would normally be vacated and filled in absence of the incentive, is $2,651,735 in FY 2004 and $3,535,647 in FY 2005.

11. Agencies could realize some cost savings in recruitment expenses from this act. Recruitment costs are not considered in this fiscal note.
12. If the voluntary termination incentive were not available, it is assumed that 2.5 percent of the employees currently with 0-28 years of service would choose to terminate their employment on Sept. 30, 2003. The assumption is also made that 12.5 percent of the employees with 29+ years of service, as of Jan. 2003, would choose to retire at this time. Without the incentive 308 employees would still choose to retire. The average age for state employees with 29+ years is currently 57.8 years. The assumption is made that all vacated positions, without the incentive, would be filled at 90 percent of their base plus longevity rates, the same rates assumed for new recruits if the incentive was in effect.
13. Compensation for unused vacation leave and unused sick leave credits (at 25 percent of available sick leave hours at time of termination) to employees voluntarily terminating under this Act will total $6.466 million and will be paid from the Employee Benefit Trust fund on September 30, 2003, the assumed date of termination. This is an additional cost of $5.073 million in FY 2004 when compared to leave payouts expected without the incentive.
14. The cash incentive of 3 percent of the employee's base salary, plus longevity, for each year of continuous employment, which will be paid to retirees under the incentive program will cost $25.032 million in FY 2004 after netting the $221,000 savings calculated in assumption #4.
15. The Department of Administration will require $12,000 per year to administer the termination incentive. This will allow the department to obtain a third party administrator to make payouts to participants and fund temporary help to enroll people in the incentive.
16. Funding is prorated to its source based on the FYE 2002 total state personal services expenditures extracted from SABHRS. General fund (01) ~37%; State Special Revenue (02) ~36%; Federal Special Revenue (03) ~16%; other ~11%.

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FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
Personal Services (10% savings on new hire)	($2,651,735)	($ 3,535,647)
Operating Expense	12,000	12,000
Transfers Out		
General fund transfer out	18,268,000	$0
Agencies transfer out		
Compensation leave payout	2,384,539	$0
Cash Incentive	11,764,938	$0
Other Employee Benefit Trust (09)		
Compensated Leave Payout	6,465,604	$0
Interest on Annuity	686,380	620,874
Annuity Payments	1,466,060	2,249,046
TOTAL	$38,395,786	($653,727)
Funding of Expenditures:		
General Fund (01)	$17,286,858	($1,308,189)
State Special Revenue (02)	9,895,273	(1,260,833)
Federal Special Revenue (03)	(424,278)	(565,704)
Other	3,019,889	(388,921)
Other Employee Benefit Trust (09)	8,618,044	2,869,920
TOTAL	$38,395,786	($653,727)
Revenues:		
Other Employee Benefit Trust (09)		
Transfers In	$32,417,477	$0
Interest Earnings	645,244	716,373
TOTAL	$33,062,721	$716,373
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($17,286,858)	$1,308,189
State Special Revenue (02)	(9,895,273)	1,260,833
Federal Special Revenue (03)	424,278	565,704
Other	(3,019,889)	388,921
Other Employee Benefit Trust (09)	24,444,677	2,153,547
TOTAL	($5,333,065)	$1,370,100

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LONG-RANGE IMPACTS:

1. The total annuity payments plus interest and the accumulated compensated leave payout on the termination date will require about $35.2 million. This estimate includes the amounts expended in the 2005 biennium to cover the incentive payouts.
2. See assumption #5. The $18.268 million transfer from the general fund into the Employee Benefit Trust fund will fund the retirement incentive for general fund employees and employees whose costs are subject to federal fund reimbursement. Subsequent reimbursement of these costs by the federal government is dependent upon approval from the appropriate federal agency. This fiscal note assumes that approximately $4.8 million of the incentive payouts, representing the assumed proportionate share of federal funds used to compensate employees during the 2002 fiscal year, will eventually be reimbursed to the general fund from the federal government. This reimbursement will occur in the 2007 biennium, two years after the date the incentive payout cost is incurred.

TECHNICAL NOTES:

1. Under this bill, the state has no control over who might choose to leave employment and take advantage of the termination incentive.
2. It's not possible to predict accurately how many employees, and the level of expertise and knowledge these employees have, that would take advantage of this retirement incentive.
3. The bill does not mandate the personal services savings of $46,876,995 for the biennium identified in the "whereas" section. The bill does not require additional vacancy savings over the Executive Budget, nor does it require the elimination of any positions.
3. Federal Circular A-87 states, "*Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency*". The bill assumes that some of the funds necessary to pay for the incentive will come from federal cost sharing and reimbursement. It cannot be determined in advance of having incurred these expenditures whether they will be considered allowable costs by the cognizant federal agency.
4. The general fund transfer to the Termination Incentive Trust fund of $18,268,000 refers to the amount transferred to the general fund from HB 363; however, there is no contingent language included in HB 360.
5. If it is the legislature's intent, the bill could contain some language, not to be codified, that requires the retirement division to report back to the legislature on the total actual costs of this bill as compared to the predicted costs of this bill. This might inform the legislature if the Voluntary Termination Incentive saved more money than it cost.
6. Section 8(2) of the bill refers to employees funded in whole or in part from "nongeneral fund money <u>or</u> nonfederal fund money". Technically this refers to all fund types, as every fund is either nongeneral or nonfederal. It may be the legislature's intent for this section to state "nongeneral fund money <u>and</u> nonfederal fund money".
7. The bill does not address where non-general or non-federal funded agencies would be able to obtain loans in the event they are unable to meet the requirement of leave payouts and cash incentives.

DEDICATION OF REVENUE:

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Amounts transferred into this account will be pro-rata amounts from funding sources to the beneficiaries of the termination incentive.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
This account will provide better analysis that the funding is sufficient to cover the expenditures.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
Yes

d) Does the need for this state special revenue provision still exist? __Yes ___No (Explain)
Yes

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
No. If passed, the legislature approves a statutorily appropriated amount.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
See comment under e): If passed, the legislature approves a statutory appropriation to accomplish the continuing need.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
This account will provide better analysis that the funding is sufficient to cover the expenditures, not otherwise attainable if general funded.